



**LODI CITY COUNCIL**  
**Carnegie Forum**  
305 West Pine Street, Lodi

**"SHIRTSLEEVE" SESSION**

**Date: November 15, 2005**

**Time: 7:00 a.m.**

For information regarding this Agenda please contact:

**Susan J. Blackston**  
**City Clerk**  
**Telephone: (209) 333-6702**

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**Informal Informational Meeting**

- A. Roll call by City Clerk**
- B. Topic(s)**
  - B-1 Utilities Quarterly Report (EUD / PW)
- C. Comments by public on non-agenda items**
- D. Adjournment**

Pursuant to Section 54954.2(a) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

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Susan J. Blackston  
City Clerk



# CITY OF LODI

## COUNCIL COMMUNICATION

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**AGENDA TITLE:** Receive financial data on Electric Utility operations (EUD)

**MEETING DATE:** November 15, 2005

**PREPARED BY:** Interim Electric Utility

**RECOMMENDED ACTION:** No Council action is required. Data is being provided for informational purposes only.

**BACKGROUND INFORMATION:** On October 18, 2005 a presentation was made to the city council entitled "Update on Electric Utilities Financial position, Market Cost Adjustment and Recent Power Purchases". A copy of that presentation is attached. The purpose of that presentation was to bring the Council up to date on the financial results leading up to fiscal year 2006 and to provide a brief snapshot of finances post 2006. As part of that presentation, staff explained that the Electric Department had established a plan to address the immediate financial problems affecting the utility which consisted of 1) stabilizing purchased power costs, 2) correcting revenue/expense imbalances through the application of a Market Cost Adjustment and 3) Implementing a long term rate structure and financial plan.

Issue: The long term financial plan includes a risk management program. Key elements of that plan include:

- Identification of standardized reports that will be provided to the city council that are necessary to ensure oversight of the electric utility;
- Identification of the frequency, method and individual responsible for preparation and transmission of the standardized reports;
- Establishment of procurement policies:
  - Recommended amounts of energy to procure on an advance basis versus the spot market
  - Recommended amounts of energy to procure through contract versus ownership
  - Recommended term lengths for procurement contracts, and
  - Authorization limits, checks and balances associated with procurement authorizations
- Recommendations for implementing the risk management program.

Until the long-term financial plan can be completed, and the specific reporting elements identified, staff is presenting the following reports for council review:

- Electric Utility Proforma for fiscal years 2003 through 2011;
- A summary of the net open position for the electric utility through the balance of fiscal year 2006; (this report will be provided at the Tuesday morning Shirtsleeve Session)
- A summary of the net open position for the electric utility for fiscal year 2007; and
- A summary of revenues collected from the base rates and market cost adjustment by month, as required pursuant to the Market Cost Adjustment Ordinance reporting requirements (this report will be provided at the Tuesday morning Shirtsleeve Session)

APPROVED: \_\_\_\_\_  
Blair King, City Manager

**Receive financial data on Electric Utility operations (EUD)**

**November 15, 2005**

**Page 2 of 2**

These reports are being provided in order to establish a culture of providing quarterly oversight reports to the City Council and to conform to the spirit of a risk management program, which includes regular reporting of results.

**FISCAL IMPACT:** There is no fiscal impact associated with this quarterly reporting.

**FUNDING:** Not Applicable

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David Dockham  
Interim Electric Utility Director

DD/lst

Attachments

cc: City Attorney  
Finance Director

# **Update on Electric Utility's financial position, Market Cost Adjustment and recent power purchases**

City Council Shirtsleeve  
Session

October 18, 2005





# Overview

- Financial focus will be on FY06
  - Financial results leading up to FY06
  - Brief treatment of finances post 2006
- Second step of three step process
  1. Stabilize purchase power costs
  2. Correct the Revenue/Expense Imbalance (MCA)
  3. Implement long term rate structure and financial plan



# Stabilize Purchase Power Costs

November – June	\$11.6 million
October balance of month	\$ .6 million
Total	\$12.2 million
September open position	\$ .1 million
Total	\$12.3 million
Estimate for purchase	\$13.1 million
Reduction from estimate	\$ .8 million

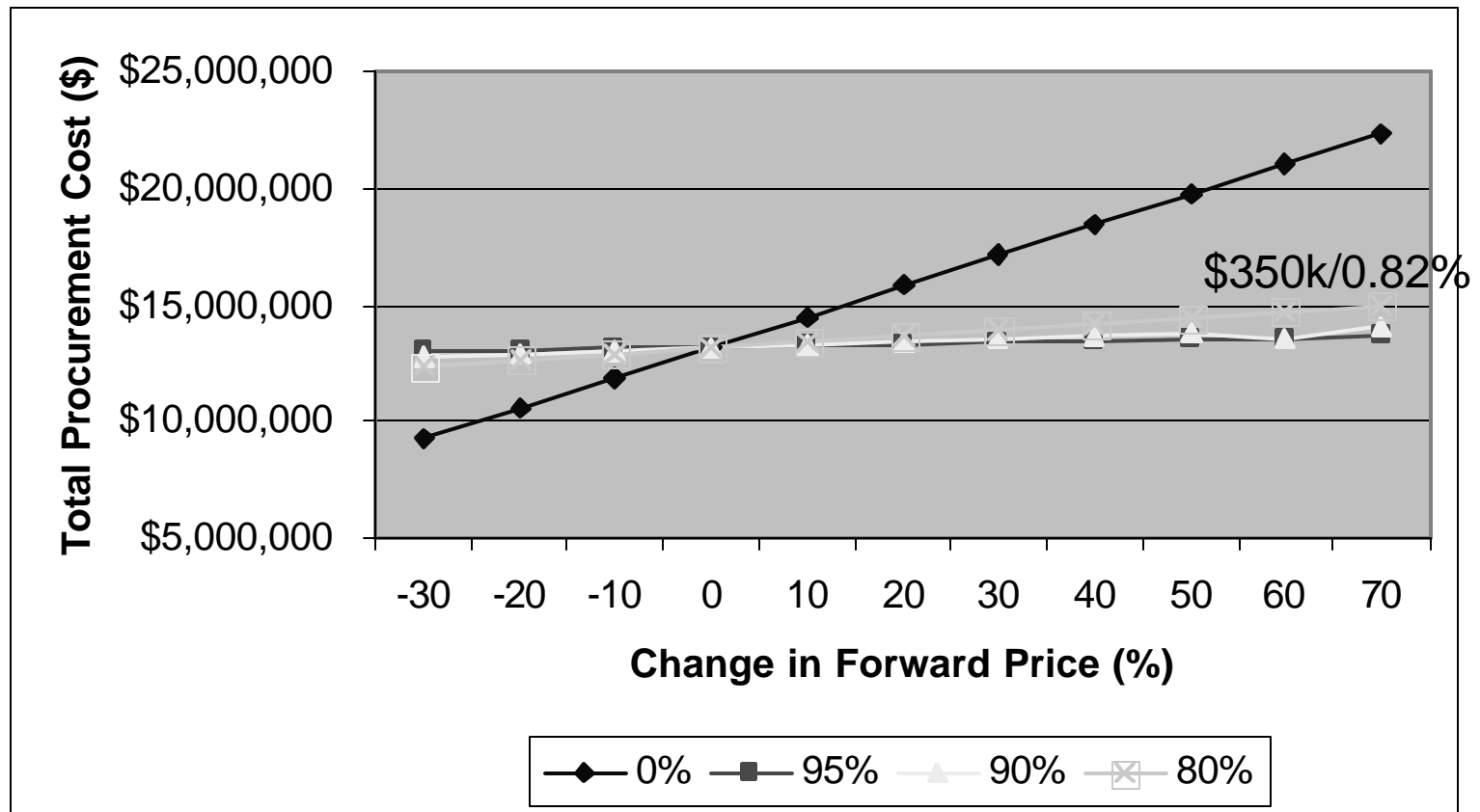


# Ongoing results

- October prices have been choppy
- Future prices have stabilized or flattened
- Price volatility still a significant risk
- A turbine failure at NCPA's Geo 4 plant has resulted in reduced output from plant to participants
  - Additional purchase needed to get to 95%
  - Represents approximately 6% of requirement in November and December
  - Estimated cost of \$250k per month



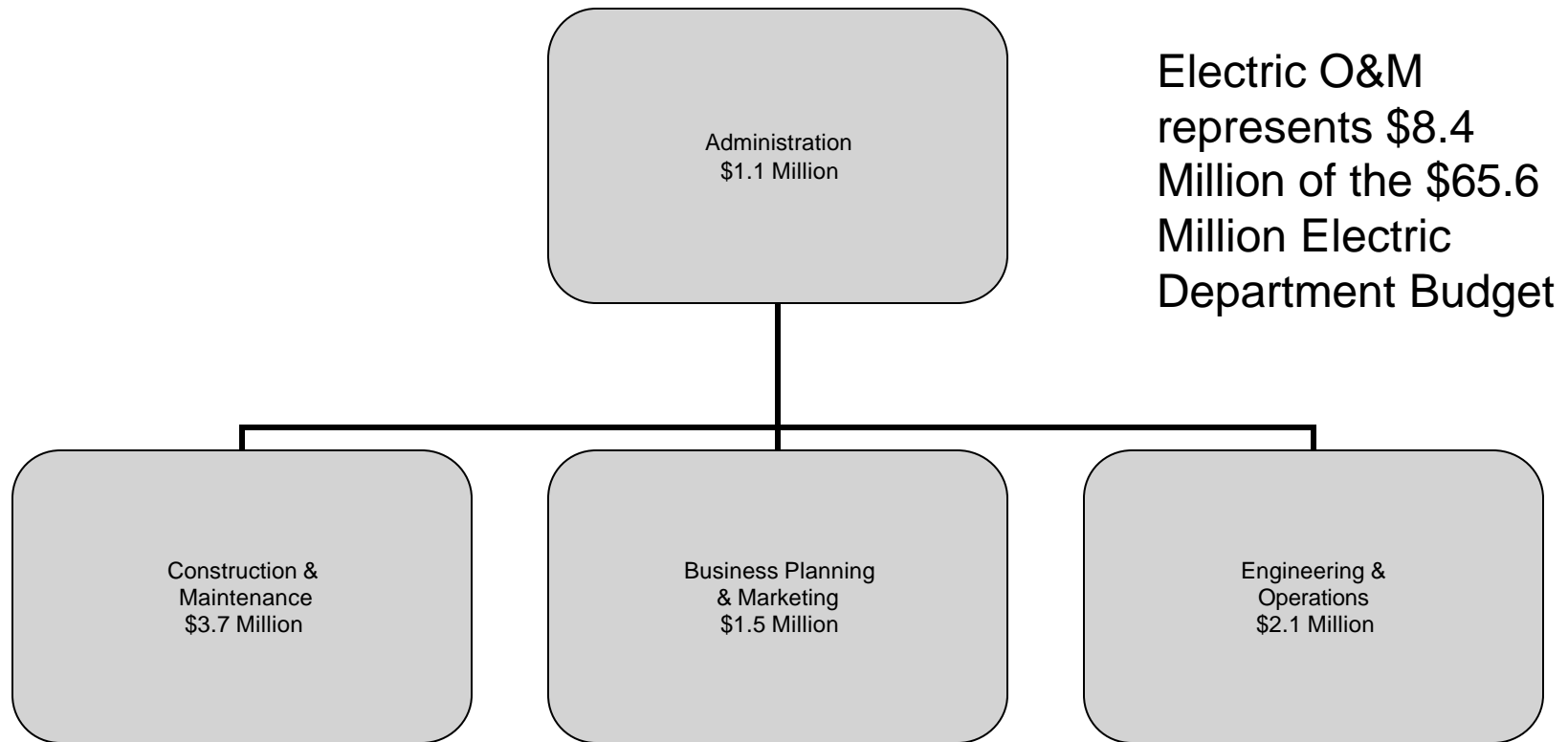
# Open Position Sensitivity to Price Changes (9/27/2005)





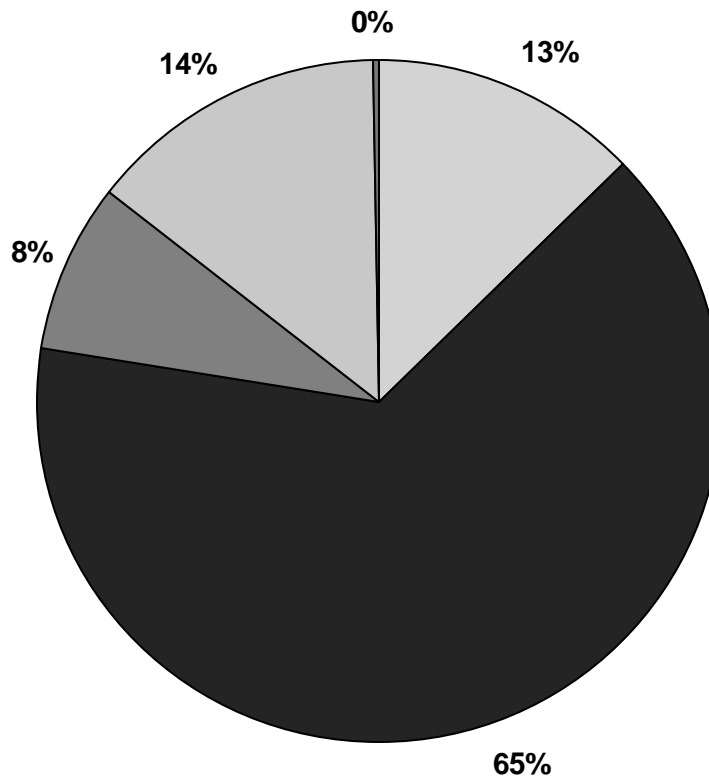


# Organizational Background





# Financial Structure - Expenses

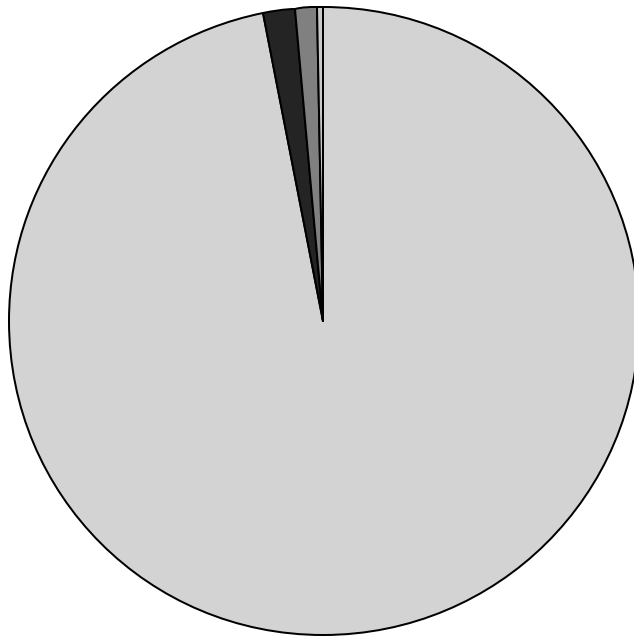


■ O&M ■ Bulk Power ■ Debt ■ Transfers ■ CIP's

O&M	\$ 8.4 Million
Bulk Power	\$ 42.7 Million
Debt	\$ 5.2 Million
CIP's	\$ .1 Million
Transfers	\$ 9.5 Million
Total	\$ 65.9 Million



# Financial Structure – Revenues



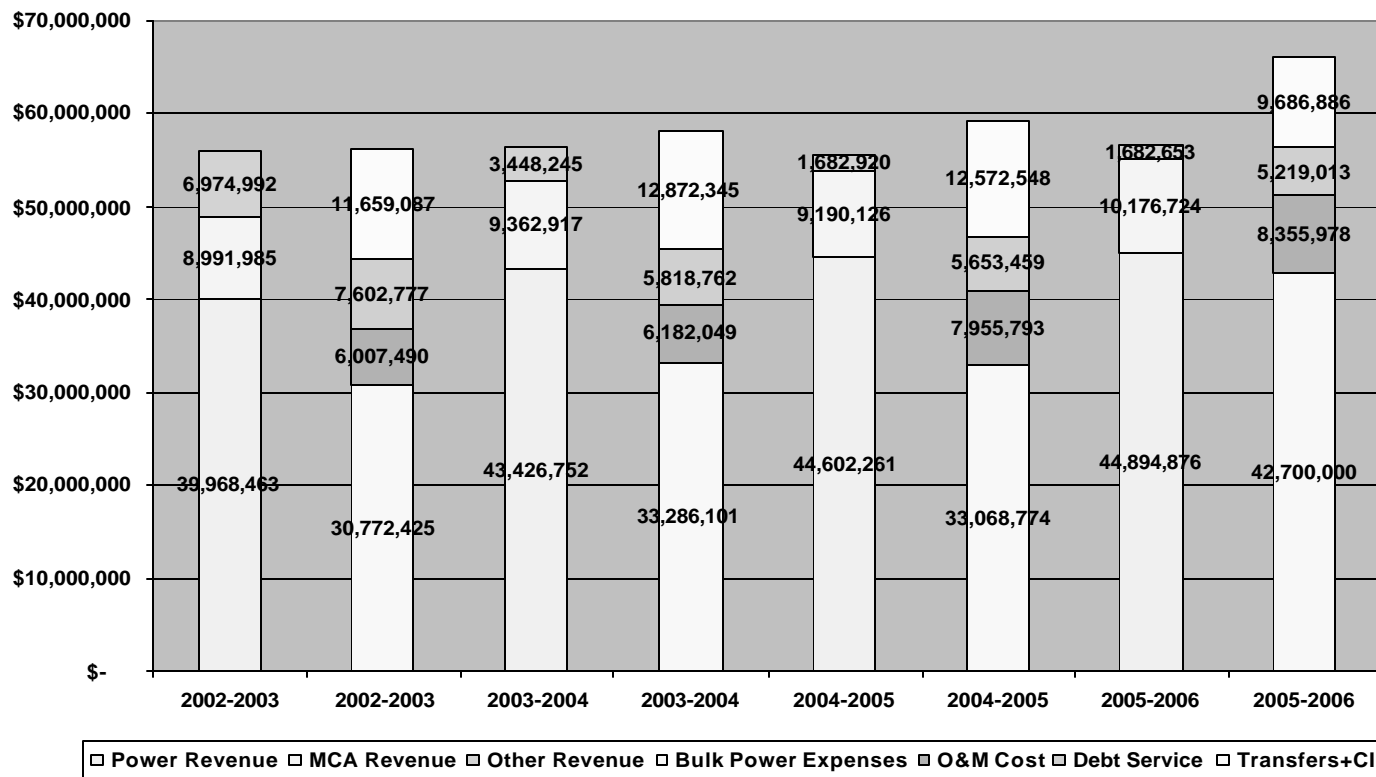
Power Sales	\$ 55.1 Million
Investments	\$ .95 Million
Services	\$ .59 Million
Other	<u>\$ .14 Million</u>
Total	\$ 56.7 Million

■ Power Sales ■ Investments ■ Services ■ Other



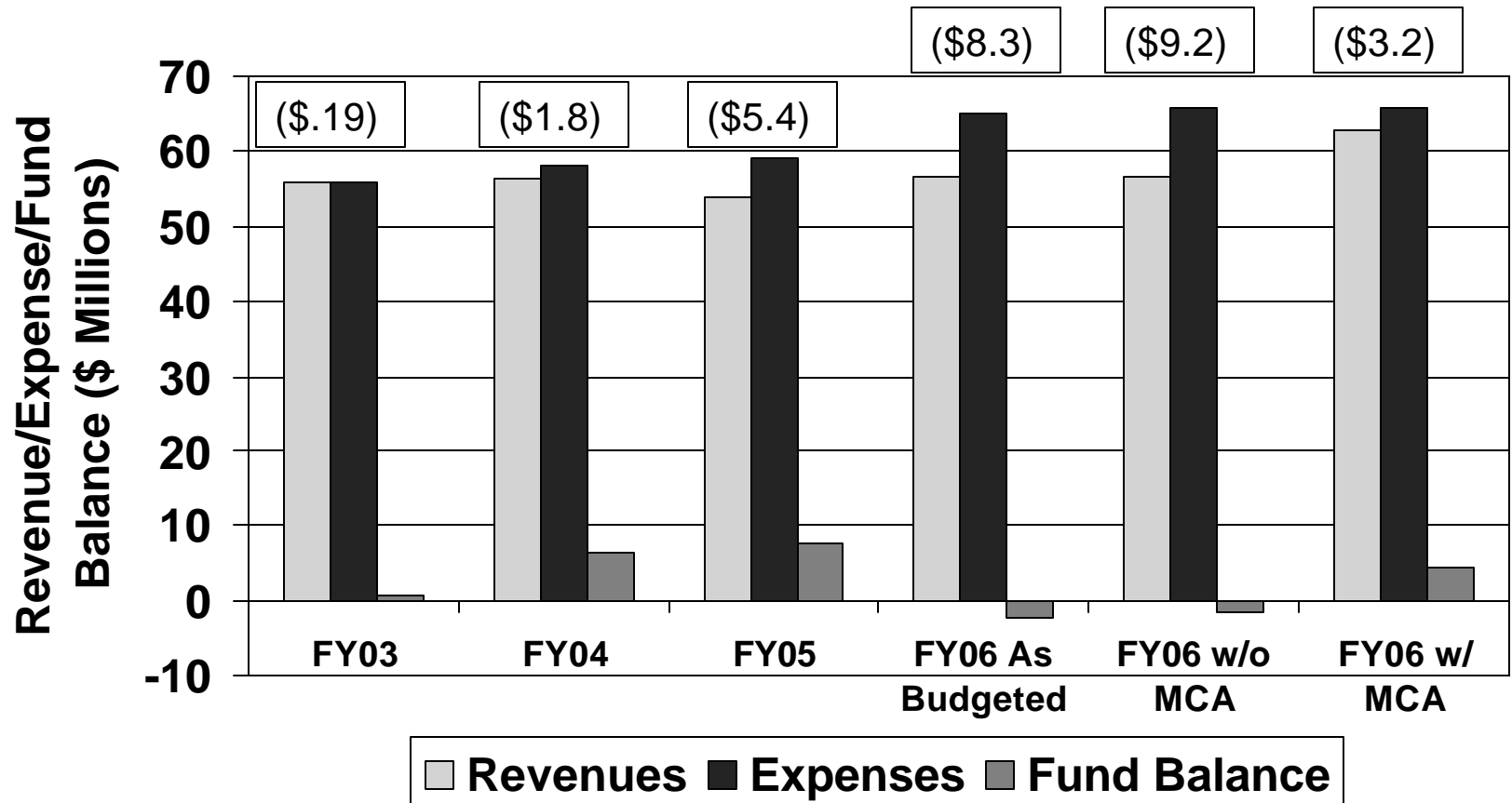
# Financial Structure – Revenues and Expenses

Total Revenue vs. Total Expenses





# Cash Flow Analysis of Financial Structure





# Causes of Revenue Imbalances

- Rapidly increasing costs of power supply in FY06
- No rate adjustments since 2002 to address generally increasing revenue and expense imbalances
- Discounted rates for largest users



# Change in Power Supply Costs Over Time

	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06 As Budgeted</b>	<b>FY06 As Forecast</b>
Power Supply Cost (\$M)	\$30.8	\$32.3	\$33.1	\$39.8	\$42.7
% Change from prior year	n/a	4.9%	2.5%	20.2%	29.0%
% change from last MCA	n/a	4.9%	7.5%	29.2%	38.6%

Attachment 1 - Electric Department Proforma Fiscal Years 2003 to 2011

	FY03 Actual	FY04 Actual	FY05 Actual	FY06 Budget	FY06 Forecast w/o MCA	FY06 Forecast w/ MCA	FY07 Forecast	FY08 Forecast	FY09 Forecast	FY10 Forecast	FY11 Forecast
<b>Total Revenue</b>											
Power Sales	\$48,872,490	\$52,898,903	\$53,792,387	\$55,071,600	\$55,071,600	\$61,071,600	\$65,000,000	\$66,950,000	\$68,958,500	\$71,027,255	\$73,158,073
Rate Stabilization Fund Withdrawal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Revenue	\$6,974,992	\$3,448,245	\$1,682,920	\$1,682,653	\$1,682,653	\$1,682,653	\$590,000	\$607,700	\$625,931	\$644,709	\$664,050
Total Revenues	\$55,847,482	\$56,347,148	\$55,475,307	\$56,754,253	\$56,754,253	\$62,754,253	\$65,590,000	\$67,557,700	\$69,584,431	\$71,671,964	\$73,822,123
<b>Total Expenses</b>											
Purchased Power	\$30,772,425	\$33,286,101	\$33,068,774	\$39,833,099	\$42,700,000	\$42,700,000	\$43,200,000	\$39,190,000	\$41,200,000	\$45,979,000	\$44,169,000
Non-Power Costs	\$6,007,490	\$6,182,049	\$7,955,793	\$10,401,497	\$8,355,978	\$8,355,978	\$8,658,041	\$8,961,072	\$9,274,710	\$9,599,325	\$9,935,301
Total Expenses	\$36,779,915	\$39,468,150	\$41,024,567	\$50,234,596	\$51,055,978	\$51,055,978	\$51,858,041	\$48,151,072	\$50,474,710	\$55,578,325	\$54,104,301
<b>Net Revenue</b>	\$19,067,567	\$16,878,998	\$14,450,740	\$6,519,657	\$5,698,275	\$11,698,275	\$13,731,959	\$19,406,628	\$19,109,721	\$16,093,639	\$19,717,822
<b>Less: Net Debt Service</b>	\$7,602,777	\$5,818,762	\$5,653,459	\$5,219,013	\$5,219,013	\$5,219,013	\$5,685,954	\$8,551,804	\$6,048,532	\$6,483,111	\$6,483,111
<b>Net Income -- Cash Basis</b>	\$11,464,790	\$11,060,236	\$8,797,281	\$1,300,644	\$479,262	\$6,479,262	\$8,046,005	\$10,854,824	\$13,061,189	\$9,610,528	\$13,234,711
<b>Less: Transfers &amp; CIP's</b>	\$11,659,087	\$12,872,345	\$12,572,548	\$9,586,886	\$9,686,886	\$9,686,886	\$9,653,185	\$11,245,796	\$11,599,229	\$11,963,827	\$12,339,944
Plus: Reimbursements from COP's	\$0	\$0	\$0	\$0	\$0	\$0					
Less: RSF Deposits	\$0	\$0	\$0	\$0	\$0	\$0					
Less: Working Capital Fund Deposits	\$0	\$0	\$0	\$0	\$0	\$0					
Operating Income - Accrual Basis	(\$194,297)	(\$1,812,109)	(\$3,775,267)	(\$8,286,242)	(\$9,207,624)	(\$3,207,624)	(\$1,607,180)	(\$390,973)	\$1,461,960	(\$2,353,299)	\$894,766
<b>Working Capital Reserve (FYE)</b>											
Rate Stabilization Fund (FYE)	\$6,241,447	\$6,260,483	\$1,897,989	\$0	\$0	\$0					
Electric Operating Fund FYE	(\$5,469,859)	\$86,604	\$5,615,938	(\$772,315)	(\$6,388,253)	(\$3,207,624)					
<b>Working Capital FY End</b>	\$771,588	\$6,347,087	\$7,513,927	(\$772,315)	(\$1,693,697)	\$4,306,303	\$2,699,123	\$2,308,151	\$3,770,111	\$1,416,812	\$2,311,578
<b>Coverage (including RSF draws)</b>	2.51	2.90	2.56	1.25	1.09	2.24	2.42	2.27	3.16	2.48	3.04



Attachment 3

Nov. 8, 2005

	Lodi Total Surplus/(Deficit)	Load	% of Load	Lodi HLH Surplus/(Deficit)	Load	% of Load	Lodi LLH Surplus/(Deficit)	Load	% of Load	HLH \$/MWH	LLH \$/MWH
2006 July	(23,022)	50,000	-46.0%	(11,075)	31,145	-35.6%	(11,947)	18,855	-63.4%	\$ 97.00	\$ 67.90
August	(28,019)	51,590	-54.3%	(17,244)	34,620	-49.8%	(10,774)	16,969	-63.5%	\$ 102.00	\$ 71.40
September	(18,857)	44,534	-42.3%	(9,420)	28,359	-33.2%	(9,437)	16,175	-58.3%	\$ 98.00	\$ 71.05
October	(21,547)	38,724	-55.6%	(13,083)	24,852	-52.6%	(8,464)	13,872	-61.0%	\$ 90.00	\$ 72.00
November	(33,293)	37,593	-88.6%	(22,643)	23,833	-95.0%	(10,650)	13,759	-77.4%	\$ 86.00	\$ 68.80
December	(36,412)	38,673	-94.2%	(24,662)	23,641	-104.3%	(11,750)	15,032	-78.2%	\$ 88.00	\$ 70.40
2007 January	(33,164)	38,621	-85.9%	(20,099)	24,749	-81.2%	(13,064)	13,873	-94.2%	\$ 90.00	\$ 67.50
February	(29,008)	34,883	-83.2%	(17,334)	22,636	-76.6%	(11,674)	12,247	-95.3%	\$ 88.00	\$ 66.00
March	(31,061)	37,664	-82.5%	(21,350)	24,603	-86.8%	(9,711)	13,060	-74.4%	\$ 82.00	\$ 61.50
April	(21,249)	38,029	-55.9%	(11,925)	24,099	-49.5%	(9,324)	13,930	-66.9%	\$ 80.00	\$ 60.00
May	(18,024)	40,735	-44.2%	(11,612)	26,442	-43.9%	(6,411)	14,293	-44.9%	\$ 76.00	\$ 57.00
June	(18,910)	44,888	-42.1%	(11,521)	29,705	-38.8%	(7,389)	15,183	-48.7%	\$ 82.00	\$ 61.50
FY Total	(312,564)	495,933	-63.0%	(191,969)	318,683	-60.2%	(120,595)	177,249	-68.0%		

Assumptions: Zero STIG and CT1 generation.  
Average hydro conditions for Calaveras Project, Western Base Resource, and market prices.  
Forward electricity prices based on Nov. 8, 2005 TFS Energy indications.  
There are no forward energy transactions for Lodi during this period.

INDICATED COST OF DEFICIT ENERGY BALANCES			
	Total Cost	HLH Cost	LLH Cost
2006 July	\$ (1,885,436)	\$ (1,074,227)	\$ (811,209)
August	\$ (2,528,189)	\$ (1,758,895)	\$ (769,295)
September	\$ (1,593,628)	\$ (923,162)	\$ (670,467)
October	\$ (1,786,914)	\$ (1,177,504)	\$ (609,411)
November	\$ (2,680,000)	\$ (1,947,285)	\$ (732,714)
December	\$ (2,997,456)	\$ (2,170,256)	\$ (827,200)

<b>2007 January</b>	\$ (2,690,777)	\$ (1,808,948)	\$ (881,829)
<b>February</b>	\$ (2,295,904)	\$ (1,525,423)	\$ (770,481)
<b>March</b>	\$ (2,347,932)	\$ (1,750,706)	\$ (597,226)
<b>April</b>	\$ (1,513,411)	\$ (953,978)	\$ (559,434)
<b>May</b>	\$ (1,247,976)	\$ (882,537)	\$ (365,439)
<b>June</b>	\$ (1,399,159)	\$ (944,737)	\$ (454,422)
<b>Total July-June</b>	\$ (24,966,783)	\$ (16,917,656)	\$ (8,049,127)